

Editorial



# View

## Milking the consumer

MAKING the country self-sufficient in milk has been one of the main goals of the Mahinda Rajapaksa Government and since its election has been importing costly foreign cows to boost local production and reach the ambitious target by 2016. However, there are concerns that the entire production line of the industry has not been given equal attention.

According to government records there are 238,322 registered dairy farmers while the number of unregistered dairy farmers are said to be nearly 100,000. Two hundred and four million litres of milk are obtained annually from 251,490 dairy cows. The number of buffalos is around 86,220 and they provide 5.5 million litres of milk annually.

The daily production of milk in Sri Lanka is 800,000 litres according to the Livestock and Rural Community Development Ministry. Animal product and health product reports say milk consumption per person in Sri Lanka a day is 135 millilitres. According to the Medical Research Institute's recommendations this consumption should be 100 litres. If Sri Lanka is to become self-sufficient in milk the annual production should rise to 732 million by the end of 2015 from the present 258 million.

A total of 800,000 litres of milk reach the market each day. Of this amount the Milco, Nestle and Pelawatte companies purchase nearly 500,000 litres per day. Accordingly, Milco buys 210,000, Nestle 160,000, Pelawatte 130,000, Kothmale 40,000, Ambewela 30,000, Lucky Yogurt 18,610 and Rich Life 11,030. In addition there are small scale milk foods products and the rest for private consumption.

Only 33% of the country's milk requirements are produced locally. The balance 67% is imported. During the seven years (2005-2012) after the Government came to power, total milk production has increased by 107 million litres. It is a 56% increase. The number of dairy cows has increased by 155,000. If milk can be obtained from 300,000 more cows, Sri Lanka will become self-sufficient in milk. This at least is the tale on paper.

Yet during the last few weeks a strike by Milco workers has strangled production with two of the company's production facilities coming to a complete stop. Various reports estimate that the loss from the strike is as much as Rs. 300 million while consumers have been seriously inconvenienced by the lack of locally produced milk powder.

Since Milco is the largest processor of locally produced milk it needs to be run in as professional a manner as possible but trade unions have demanded the removal of the Milco management citing corruption and wastage.

The stand-off finally ended when President Mahinda Rajapaksa intervened and pledged to address the workers' concerns. Lack of transparent dispute resolving mechanisms were badly on display in this instance. It would seem that from vegetables to milk powder industries cannot exist without political intervention from the top.

The whole mess is now before a labour tribunal and consumers, at least in the short term, can be assured of some relief. But this does not mean that their due is assured for in a protected market such as Sri Lanka's where import substitution is championed and monopolies are the natural result. This means that consumers are forced to pay high prices and are not always given a good quality product consistently.

Import substitution has failed across the board in many countries over many decades, this is a fact that the Government has to be aware of and create space for competition between companies so that corruption and mismanagement are kept at a minimum. Consumers must not always have to pay the price.



### Wijeya Newspapers Ltd

No 41, W.A.D. Ramanayake Mawatha, Colombo 2.

Web: www.ft.lk Email: editor@ft.lk Email: news@ft.lk

General: 2479780, 2479479 News Desk: 2479781/82/85 Fax: 2447848

Advertising: 2479500, 2479561

Subscriptions: 2479626, 2479628, 2307789 Email: subs@wijeya.lk



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#### For further information contact:

96, Kirula Road, Colombo 5  
Telephone: 5353635 Fax: 5335500  
E-mail: pccsl@pccsl.lk  
Web page: www.Pccsl.lk

# Political capital and the potential rise of Al Capones

THE concerned citizens of Sri Lanka have watched in silence the steady escalation of reports of economic crimes, TV footage of the work of organised and contract killers and their despicable criminal acts, investigative media reports about political nexus of the perpetrators and the absence of rule of law. Yet none had the guts to question the alarming trend in organised violence and crimes.

The first shot at crime busting would be to create public confidence in the Police Department. There must be some semblance of discipline in the Police service in the first place. When the Police Department is rid of corrupt officers, the voluntary 'whistle blowers' from the citizenry would emerge.

When there are big businesses and crooks who systematically evade tax and Customs duties by circumventing laws, thus depriving the Government of vital revenue, the future of the economic development would be in doldrums. The perpetrators are being protected and nurtured by a phenomenon called secret political influence and also by the mafia link with the enforcement authorities. Politics and mafia mix well as both pursue short-cuts to wealth.

John Dickie, an authority on the mafia, in his book 'A History of the Sicilian Mafia: Cosa Nostra' has defined the mafia as 'pursuing power and money by cultivating the art of killing people and getting away with it, and by organising itself in a unique way that combines the attributes of a shadow state, an illegal business, and a sworn secret society'.

### Sri Lanka

In Sri Lanka economic crimes have been on the increase ever since the economy was liberalised when the UNP Government came into power in 1977. The open economic principles brought about a massive economic activity and led to a number of mega construction projects.

The skyscrapers of Colombo could be seen from afar, a clear reflection of the success of JRJ's economic policies. It also brought along with it the negative side. The SLEP-led governments were in power since 1994 and its economic performance has not been as impressive as the UNP's 18-year rule, during which time massive projects such as Colombo Port and Mahaweli project were completed.

Casinos were first introduced by the UNP Government but it would be a great folly to follow the UNP's economic policies when there is a peace dividend yet to be fully capitalised on. What the Government should be pursuing now is to attract Foreign Direct Investments (FDIs) in industries where investments in new technologies would augment our export potential in an effort to reduce the ever-growing debt burden.

### Economic liberalisation

With the advent of open market economics, many crimes were attempted. The most spectacular economic crime people heard of during the last two decades was the siphoning off of kerosene from a pipeline running from the Colombo Harbour to the Sapugaskanda Refinery followed by VAT scam and the manipulation of Customs law. These are classic economic crimes perpetrated with the full connivance of persons with political influence.

Though the economic crimes originate from the time the economy was liberalised, it does not per se warrant criticism; what was absent at that time was laws to curb the market forces



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and to plug loopholes in the system.

International criminal gangs who engage in the drug trade, gun smuggling, frauds, counterfeiting, tax evasions, poaching, money laundering and other financial crimes, cyber crimes, computer and credit card frauds were ever poised to make use of such opportunities. No single individual obviously can be privy to such sophisticated crimes and it has to be a combination of masters of the game (the planners), the criminals (operatives) and the authorities (mafia link in the Police, Customs, etc). When most people think of organised crime, their immediate perception is the Italian style 'Godfather' movies.

The Government of Sri Lanka loses billions of revenue from such shady business activities while the Treasury is engaged in a brainstorming exercise to bridge the budget deficit by borrowing at very high interest rates. If a systematic and holistic approach is adopted in collecting revenue legally due from transactions, the Government would not have to resort to commercial borrowing from international financial markets. This would also enable the Government to reduce the budget deficit.

### Revenue intelligence

Since 9/11 the US and Western Governments have put in place a number of filters to check on the international terror networks as some terrorist organisations had involved in massive economic crimes worldwide and the incumbent governments' intervention in checking bona fides of money transactions has effectively put a damper on fundraising for terrorist activities.

In many advanced countries industrial espionage is also monitored; however in Sri Lanka there are no such advanced technologies to be protected from foreign industrial espionage and surveillance. Our only national asset, if at all, is the micro cars, which needs some protection from eyes from abroad.

We have had several attempts on the lives of Customs officers and other Government officers involved in investigating corruption. This would put a restraint on honest dedicated investigators from going about their routine work if their lives are threatened. The news media exposes, on a weekly basis, massive scale corruption and shady deals by top Government officials.

We have established a Commission to Investigate

Bribery and Corruption but no big sharks have ever been convicted. With the advent of technology, economic crime has become highly sophisticated, primarily in light of the advances in information and telecommunication technologies. It would be difficult for an ordinary Police officer to investigate a sophisticated crime unless he or she has had specialised training.

Investigating an economic crime would entail a lot of time and even with evidence, to secure a conviction depends on legal niceties. There are a number of hurdles in the path of combating economic crimes. The main hurdle is the practical aspect of investigating a crime and the loopholes in our laws that allow a crook to circumvent the existing procedure. It is perhaps time a Special Presidential Commission was established to look into the entire gamut of economic crimes and to recommend law reforms necessary to arrest this situation.

### Lessons from other countries

Nigeria has had a resurgence of economic crimes as a result of its oil wealth and its economic boom. The Government of Nigeria established a Financial and Economic Crimes Commission with the intention of arresting the menace of economic crimes. The Act defines an economic crime as "non violent criminal and illicit activity committed with the objective of earning wealth illegally either individually or in a group or organised manner thereby violating existing legislation governing the economic activities of the government and its administration and includes any form of fraud, narcotic drug trafficking, money laundering, embezzlement, bribery, looting and any form of corrupt malpractices, illegal arms deals, smuggling, human trafficking and child labour, oil bunkering and illegal mining, tax evasion, foreign exchange malpractices including counterfeiting of currency, theft of intellectual property and piracy, open market abuse, dumping of toxic wastes, and prohibited goods, etc."

The Act also defines the meaning of terrorism though the ambit of the enactment is to investigate economic crimes. Nigeria has made advances in economic crime prevention and perhaps we can take a leaf out of that book.

South Africa also estab-

lished an authority by an Act of Parliament (Financial Intelligence Centre Act No. 38 of 2001) with the purpose of assisting in the identification of the proceeds of unlawful activities and the combating of money laundering activities. The other objectives of the Centre are to make information collected by it, available to investigating authorities, the intelligence services and the South African Revenue Service to facilitate the administration and enforcement of the laws of the Republic and to exchange information with similar bodies in other countries regarding money laundering activities and similar offences.

Enactments of new laws will remain only in the books, but the will to pursue a case solely depends on the team sent to investigate a case. They should be adequately motivated, protected and incentives are offered for successful prosecution of offences. Customs and the Inland Revenue Intelligence Unit should be reorganised and staff should be adequately trained to deal with high tech crimes. There must not be any political interference of any sort so that prosecutions could be successfully brought to fruition.

The Central Bank of Sri Lanka too should be actively involved in preventing economic crimes;

it showed some genuine enthusiasm when pyramid schemes made their mark in Sri Lanka. Likewise public awareness is created as regards other scams so that unsuspecting citizens are saved from pitfalls.

### Checks and balances

Gambling and casinos are good money spinners for the economy, as is the income from tobacco and liquor sales and Sri Lanka cannot afford to do away with such enterprises. An effective economy requires that all business functions, though some

may be morally repugnant, should reasonably be monitored and regulated. It does not mean that such industries should be banned but there should be adequate checks and balances.

Getting rid of corruption and abuse in Sri Lanka would be an uphill task; it is also rampant in most developed countries. What is required is the political will. Politicians themselves are protected, nurtured and financed by shady characters. How will we ever see the end of corruption?

(The writer is a freelance journalist and a political lobbying and public affairs consultant. He is also a member of the American Association of Political Consultants.)

### FT Quote

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